FINANCIAL STATEMENTS

Elkhart General Hospital, Inc.
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Elkhart General Hospital, Inc.
Financial Statements
Years Ended December 31, 2011 and 2010

Contents

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Elkhart General Hospital, Inc.
Elkhart, Indiana

We have audited the accompanying balance sheets of Elkhart General Hospital, Inc., (the Hospital) as of December 31, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elkhart General Hospital, Inc. as of December 31, 2011 and 2010, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective January 1, 2011, the Hospital designated its investments as trading securities. Also discussed in Note 2 to the financial statements, in 2011, the Hospital adopted authoritative guidance issued by the Financial Accounting Standards Board related to the presentation and disclosure of patient service revenue, provisions for bad debts and the allowance for doubtful accounts.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
April 30, 2012

Elkhart General Hospital, Inc.
Balance Sheets
December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,130	$ 8,897
Short-term investments	30,849	21,877
Accounts receivable, less allowances for doubtful accounts of $8,413 in 2011 and $7,443 in 2010	43,002	53,018
Due from third-party payors	1,182	1,118
Inventories	6,690	5,503
Prepaid expenses and other	10,079	8,632
Total current assets	96,932	99,045
Assets limited as to use:		
Internally designated investments	154,630	165,414
SERP and restoration plan investments	4,694	–
Endowment investments	4,664	5,017
	163,988	170,431
Property and equipment:		
Land	2,651	2,688
Buildings and improvements	176,069	174,414
Equipment	120,799	114,291
Construction in progress	2,854	4,467
	302,373	295,860
Less allowances for depreciation and amortization	171,993	156,625
	130,380	139,235
Unamortized bond issuance costs, net	714	751
Investments in and advances to affiliates	4,489	2,124
	5,203	2,875
	$ 396,503	$ 411,586

Elkhart General Hospital, Inc.
Balance Sheets
December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 9,990	$ 9,780
Accrued expenses	19,566	15,769
Due to third-party payors	1,093	1,093
Current portion of long-term debt	2,195	2,085
Total current liabilities	32,844	28,727
Noncurrent liabilities:		
Long-term debt, less current portion	81,788	83,954
Accrued pension liability	60,420	24,001
Other liabilities	5,746	5,716
	147,954	113,671
Total liabilities	180,798	142,398
Net assets:		
Unrestricted	211,041	264,171
Temporarily restricted	4,264	4,617
Permanently restricted	400	400
Total net assets	215,705	269,188
	$ 396,503	$ 411,586

See accompanying notes to financial statements.

Elkhart General Hospital, Inc.
Statements of Operations and Changes in Net Assets
For the years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Unrestricted revenue		
Revenue, before provision for bad debts	$ 240,167	$ 251,459
Provision for bad debts	(18,369)	(16,301)
Net patient service revenue	221,798	235,158
Other revenue	10,761	11,081
Total revenue	232,559	246,239
Expenses		
Salaries and wages	92,128	91,360
Employee benefits	29,355	28,666
Supplies and other	76,177	79,103
Professional fees and purchased services	27,265	23,303
Depreciation and amortization	17,606	17,769
Interest	2,042	2,147
	244,573	242,348
(Loss) income from operations	(12,014)	3,891
Non-operating		
Investment income, net	8,114	6,592
Realized gain (loss) on investments	1,544	(48)
Other, impairment expense	(1,670)	–
Reclassification of net unrealized gains on securities transferred to trading (Note 2)	9,943	–
Change in unrealized gains/losses on investments	(11,136)	–
	6,795	6,544
(Deficit) excess of revenue over expenses	(5,219)	10,435

Elkhart General Hospital, Inc.
Statements of Operations and Changes in Net Assets (continued)
For the years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Unrestricted net assets		
(Deficit) excess of revenue over expenses	$ (5,219)	$ 10,435
Change in unrealized gains/losses on investments	–	15,043
Reclassification of net unrealized gains on securities transferred to trading (Note 2)	(9,943)	–
Pension liability	(37,968)	3,372
(Decrease) increase in unrestricted net assets	(53,130)	28,850
Temporarily restricted net assets		
Investment income (loss)	(353)	497
(Decrease) increase in temporarily restricted net assets	(353)	497
(Decrease) increase in net assets	(53,483)	29,347
Net assets at beginning of year	269,188	239,841
Net assets at end of year	$ 215,705	$ 269,188

See accompanying notes to financial statements.

Elkhart General Hospital, Inc.
Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010
Operating activities		
Change in net assets	$ (53,483)	$ 29,347
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,606	17,769
Provision for bad debts	18,369	16,301
Realized and unrealized gains (losses) on investments	9,928	(15,484)
Proceeds (loss) from restricted contributions and gains (losses) on investments, net of investment income released from restrictions	353	(497)
Pension adjustment	37,968	(3,372)
Gain on asset disposal	(785)	(376)
Impairment of fixed assets	1,470	–
Changes in operating assets and liabilities:		
Accounts receivable	(8,353)	(25,980)
Other receivables, inventories, due from affiliates and prepaid expenses	(1,906)	(1,314)
Other assets	(752)	(758)
Accounts payable, accrued expenses, and other current liabilities	2,802	3,204
Other long-term liabilities	(1,490)	1,142
Net cash provided by operating activities	21,727	19,982
Investing activities		
Purchases of investments	(53,898)	(79,814)
Sales of investments	41,441	64,765
Purchase of property and equipment	(9,643)	(9,138)
Proceeds from the sale of property and equipment	1,412	21
Change in investment in and advances to affiliates	(2,368)	(262)
Net cash used in investing activities	(23,056)	(24,428)
Financing activities		
Principal payments on long-term debt	(2,085)	(2,000)
Proceeds (loss) from restricted contributions and gains (losses) on investments, net of investment income released from restrictions	(353)	497
Net cash used in financing activities	(2,438)	(1,503)
Increase (decrease) in cash and cash equivalents	(3,767)	(5,949)
Cash and cash equivalents at beginning of year	8,897	14,846
Cash and cash equivalents at end of year	$ 5,130	$ 8,897
Supplemental disclosure of cash flow information		
Interest paid	$ 2,195	$ 2,283
Fixed assets in accounts payable at year end	$ 1,205	$ 1,572

See accompanying notes to financial statements.

1. Organization

Elkhart General Hospital, Inc. (the Hospital) is a tax-exempt Indiana Hospital under Internal Revenue Code Section 509 (a)(1) as an organization described in Section 501(c)(3). The Hospital provides inpatient, outpatient, emergency care services and physician services to residents of Elkhart, Indiana, and surrounding communities.

In March 2011, the Hospital and Memorial Health System, Inc. (MHS) completed a memorandum of understanding to form an affiliation. Effective December 1, 2011, a newly formed corporation, Elkhart Memorial Topco Inc. (EMT), became the sole corporate member of both the Hospital and MHS. On December 1, 2011, the combination with MHS was completed in the form of a Combination Agreement. In connection with the closing on this date, the Hospital amended and revised both the Hospital's Articles of Incorporation and Bylaws. Seven members of the Hospital's existing Board as well as seven members from MHS's existing Board are now members of the new parent company Board of Directors.

One-time costs associated with the affiliation totaled approximately $1,600, which consists of legal and consulting fees and severance expense.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the determination of net accounts receivable, settlements with third-party payors, and accruals for pension and malpractice liabilities. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents

All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are reflected as cash equivalents. Cash equivalents include checking accounts, money market accounts, and petty cash. Deposits in financial institutions may, at times, exceed federally-insured limits. The carrying value of cash equivalents approximates fair value.

2. Summary of Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments include cash reinvested on a daily basis, accrued interest on investments, and money expected to be used in less than one year as part of the Hospital's community benefit. Also included in short-term investments are trust funds held for supplemental executive pension benefits.

Accounts Receivable

Receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. The Hospital evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible. The Hospital charges interest on past due patient accounts receivable, such amounts were not significant in 2011 and 2010.

Estimated Amounts Due From (To) Third-Party Payors

Estimated retroactive adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies, are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. See Note 3 for more information.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Trustees (the Board) for future capital improvements and community health enhancement initiatives, which the Board, at its discretion, may subsequently use for other purposes. Additionally, assets limited as to use also includes assets held by trustees under debt agreements and deferred compensation plans, and donor restricted endowment funds.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividend and interest income, realized gains and losses, and changes to fair values of investments (in 2011) are reported as non-operating investment income in the statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2011, the Hospital designated its investments as trading securities. As a result of this designation, $9,943 of cumulative net unrealized gains on the trading portfolio as of January 1, 2011, not previously recognized in earnings, were recognized as non-operating income. For the year ended December 31, 2010, unrealized gains or losses on investments are excluded from the excess of revenues over expenses, unless the loss is determined to be other than temporary as discussed below.

Investment income on proceeds of borrowings that are held by a trustee are included in operating revenue. Unrestricted contributions and income from all other investments are recorded as nonoperating gains.

Realized gains from the sale of investments are recognized using the first-in, first-out cost basis for sales of marketable equity securities. Gains and losses from sales of debt securities are recognized using a specific identification cost basis.

For the year ended December 31, 2010, investment securities are regularly evaluated for impairment. The Hospital considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. The Hospital considers the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and the intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value and included as a realized loss in excess of revenue over expenses.

Inventories

Inventories, consisting of pharmaceuticals and other supplies, are stated at the lower of cost (first-in, first-out method), or market.

Unamortized Bond Issuance Costs

Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related financing, which approximates the effective interest method. The accumulated amortization was $640 and $575 at December 31, 2011 and 2010, respectively.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Hospital's carrying amount for its financial instruments, which includes cash and cash equivalents, investments and assets limited as to use, accounts receivable, and long-term debt at December 31, 2011 and 2010 approximate fair value. The estimated fair value amounts have been determined by the Hospital using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates. The fair value of the Hospital's debt based on quoted market prices for same or similar issues was $84,501 and $85,067 at December 31, 2011 and 2010, respectively.

Investment in Nonconsolidated Affiliates

The Hospital accounts for its investments in less than majority-owned and controlled affiliates using the equity method of accounting. These investments are included in other long-term assets.

Property and Equipment

Property and equipment are carried at cost, except donated assets, which are recorded at fair value at date of donation. Property and equipment are capitalized when the cost is equal to or greater than $2,500, in accordance with the Hospital's policy. Depreciation is provided by utilizing the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Asset Impairment

The Hospital considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. At December 31, 2010, the Hospital believes that no impairment exists. Refer to Note 17 for a discussion of the December 31, 2011 fixed asset impairment.

Net Patient Service Revenue

The Hospital has agreements with various third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts received or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 3).

2. Summary of Significant Accounting Policies (continued)

Community Commitment

The Hospital provides care to all patients regardless of their ability to pay. Charity care provided by the Hospital is excluded from net patient service revenue (see Note 4).

(Deficit) Excess of Revenue over Expenses

The statements of operations and changes in net assets include (deficit) excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from (deficit) excess of revenue over expenses, includes pension adjustments, changes in unrealized investment gains and losses (2010) and any net assets released from restrictions. There were no net assets released from restrictions for the years ended December 31, 2011 and 2010.

Forgivable Loans

The Hospital has loans to employed and associated physicians that provide for forgiveness over a specified period of time. Compensation expense will be recorded in accordance with the agreement upon completion of the specified period. Forgivable loans are recorded in prepaid expenses and other current assets on the balance sheets at December 31, 2011 and 2010 and were $853 and $463, respectively.

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated for disclosures across healthcare entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Hospital has historically reported charity care at cost.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* The guidance requires certain health care entities to reclassify in the statement of operations the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, the guidance requires enhanced disclosures about policies for recognizing revenue, assessing bad debts and qualitative and quantitative information about the changes in the allowance for uncollectible accounts. The guidance is effective for the Hospital for the reporting period beginning January 1, 2012, with early adoption permitted. The Hospital adopted this guidance in 2011 and has implemented it retrospectively.

2. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries,* which addresses the diversity in the accounting for medical malpractice and similar liabilities and their related anticipated insurance recoveries by health care entities that mostly have netted insurance recoveries against the accrued liability, although some have presented the anticipated insurance recovery and the liability on a gross basis. The amendments to Topic 954 clarify that a health care entity should not net insurance recoveries against a related claim liability; the amount of the claim liability should be determined without consideration of insurance recoveries. The Hospital adopted ASU 2010-24 for the year ended December 31, 2011. The adoption of ASU 2010-24 had no material impact on the 2011 balance sheet of the Hospital.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications did not impact excess of revenue over expenses or total net assets as previously reported.

3. Contractual Arrangements with Third-Party Payors and Uncollectible Accounts

The Medicare and Medicaid programs reimburse the Hospital for inpatient and outpatient services at predetermined rates based on treatment diagnosis. Changes in the Medicare and Medicaid programs or reduction of funding levels for the programs could have an adverse effect on future amounts recognized as net patient service revenue.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Managed care reimbursement agreements provide for payment of patient services at a fixed percentage of covered charges. The Hospital has also entered into contractual arrangements with various health maintenance and preferred provider organizations, the terms of which call for the Hospital to be paid for covered services at predetermined rates, including percent of charges, per diem, and case rate.

Net patient service revenue is recorded in the period in which services are rendered, based upon estimated amounts due from patients and third party payors. Third parties include Medicare, Medicaid, managed health care plans, and other commercial plans. Estimated amounts due are calculated from contractually obligated terms of payment for each payor, as well as uninsured discounts applied for patients with no insurance coverage. Estimated contractual adjustments and bad debt expense are adjusted monthly based on actual payment history, collection experience and estimates. Subsequent to the affiliation described in Note 1, management recorded adjustments to contractual allowance accounts based on assumptions and estimates that change from prior year. These adjustments increased the 2011 (deficit) excess of revenue over expenses by approximately $6,600.

(Amounts in thousands)

3. Contractual Arrangements with Third-Party Payors and Uncollectible Accounts (continued)

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

Payor	2011	2010
Anthem	$ 59,115	$ 65,382
Commercial	61,041	59,858
Medicare	76,820	86,420
Medicaid	1,218	1,665
Self pay and uninsured	41,973	38,134
Revenues before provision for bad debts	240,167	251,459
Provision for bad debts	(18,369)	(16,301)
Net patient service revenue	$ 221,798	$ 235,158

Revenues received under the Medicare program account for 35% and 37% of net patient service revenue for the years ended December 31, 2011 and 2010, respectively. Revenues received under the Anthem Payor Contract account for 27% and 28% of net patient service revenue for the years ended December 31, 2011 and 2010, respectively.

Credit is granted without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Major components of net accounts receivable include 34% from Medicare and 12% from Anthem at December 31, 2011, and 37% from Medicare and 14% from Anthem at December 31, 2010.

The provision for bad debts is based upon management's assessment of historical and expected net collections taking into consideration the trends in health care coverage, historical economic trends and other collection indicators. Management assesses the adequacy of the allowances periodically throughout the year based upon historical write-off experience by major payor category. The results of the review are then utilized to make modifications, as necessary, to the provision for bad debts to provide for an appropriate allowance for uncollectible accounts.   A significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

(Amounts in thousands)

3. Contractual Arrangements with Third-Party Payors and Uncollectible Accounts (continued)

At December 31, 2011 and 2010 the allowance for uncollectable accounts recognized in the period by major payor source is as follows:

Payor	2011	2010
Third-Party Payors	$ 1,223	$ 175
Uninsured	7,190	7,268
Total Allowance	$ 8,413	$ 7,443

Discounts given to the Hospital's uninsured patients are determined to be approximately 30% in both 2011 and 2010. Self pay discounts totaled $13,110 and $11,109 in 2011 and 2010, respectively. The Hospital increased the estimated allowance for uncollectable accounts for third party payors in 2011 in connection with the co-pay and deductible amounts not paid by patients.

Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. For the years ended December 31, 2011 and 2010, net patient service revenue has been increased by approximately $1,434 and $2,658, respectively, for third-party settlements.

4. Community Commitment

The Hospital discloses charity care at estimated direct and indirect costs. The Hospital utilized a cost to charge ratio methodology to determine cost.

Community commitment represents charity care and/or unreimbursed costs for services rendered at a reduced fee, or no fee, due to the inability of the patient to pay for services. The amount of the charity care provided was approximately $3,634 and $4,402 for the years ended December 31, 2011 and 2010, respectively, at estimated cost.

Additionally, the Hospital reinvests funds into the community to improve the health status of community members, in particular, under-served populations. Each year, the Hospital tithes based on the Hospital's income from operations. The estimated amount of tithing funds expended was approximately $349 and $363 for the years ended December, 2011 and 2010, respectively.

5. Benefit Plans

The Hospital maintains defined-contribution employee retirement and savings plans as provided for in Internal Revenue Code Sections 401(a) and 403(b). All employees are eligible to participate. For the 403(b) plan, the Hospital matches 50% of an employee's contribution up to 6% on a payroll by payroll basis. The total employer match was approximately $1,784 and $1,573 for 2011 and 2010, respectively. For the 401(a) plan, the Hospital's contribution varies between 1% and 6% of annual pay based upon an employee's age and years of service. Employer contributions were approximately $2,645 and $2,579 for the years ended December 31, 2011 and 2010, respectively. The Hospital has accrued $2,642 and $2,586 in employer contributions and related liabilities at December 31, 2011 and 2010, respectively.

The Hospital also maintains a partially frozen, non-contributory, defined-benefit pension plan (the Plan), covering substantially all of the Hospital's employees. Effective December 31, 2007 the Hospital froze the plan for all participants who had not attained the age of 50 and accumulated 15 years of vesting service as of December 31, 2007. Participants who were are at least 50 years old and had accumulated 15 years of vesting service at December 31, 2007 will continue to accrue benefits under the terms of the plan. No new participants are allowed to enter the plan.

The Hospital's pension expense was approximately $1,455 and $2,481 in 2011 and 2010, respectively.

In connection with the Hospital's adoption of FASB ASC 715, Compensation – Retirement Plans, the Hospital recognizes the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of operations and change in net assets and recognizes the changes in that funded status in the year in which the changes occur through the statement of operations and change in net assets. The funded status of the Plan is recorded as a long-term liability on the Hospital's balance sheet.

(Amounts in thousands)

5. Benefit Plans (continued)

A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the defined-benefit pension plan are as follows:

	2011	2010
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 114,846	$ 107,953
Service cost	886	973
Interest cost	6,771	6,634
Actuarial loss	30,653	2,930
Benefits paid	(4,138)	(3,644)
Projected benefit obligation at year-end	$ 149,018	$ 114,846
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 90,845	$ 81,430
Actual (loss) gain on plan assets	(1,521)	11,376
Employer Contributions	3,413	1,683
Benefits paid	(4,138)	(3,644)
Fair value of plan assets at year-end	$ 88,599	$ 90,845
Funded status of the plan	$ (60,420)	$ (24,001)
Unrecognized prior service cost	9	11
Unrecognized net loss	64,826	26,447
Accrued benefit (liability) prepaid pension cost	$ 4,415	$ 2,457
Net periodic pension cost comprises the following:		
Service cost	$ 886	$ 973
Interest cost	6,773	6,637
Expected return on plan assets	(7,700)	(6,853)
Recognized loss	1,496	1,724
Net periodic pension cost	$ 1,455	$ 2,481

(Amounts in thousands)

5. Benefit Plans (continued)

Estimated benefit cost amortizations/AOCI increases in the next fiscal year:

Prior service cost	$ 2
Net loss (gain)	5,000

The accumulated benefit obligation for the defined-benefit pension plan was $146,017 and $111,253 at December 31, 2011 and 2010, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2011	2010
Discount rate	4.25%	6.00%
Rate of compensation increase	3.00	3.00

Weighted average assumptions used to determine net periodic pension cost for years end December 31 as are follows:

	2011	2010
Discount rate	6.00%	6.25%
Expected long-term return on plan assets	8.50	8.50
Rate of compensation increase	3.00	3.00

The Hospital's pension plan weighted-average asset allocations at December 31 by asset category are as follows:

		Actual	
	Target	2011	2010
Asset category:			
Equity	75%	61%	64%
Debt securities	24	38	35
Other	1	1	1
	100%	100%	100%

5. Benefit Plans (continued)

The plan exists to provide retirement benefits for covered employees of the Hospital consistent with the long-term interests of plan participants and their beneficiaries. The plan's investment objectives may include, but are not limited to, maintaining, the purchasing power of current assets and all future contributions by producing positive real rates of return on plan assets; having the ability to pay all benefit and expense obligations when due; maximizing return within reasonable and prudent levels of risk in order to minimize contributions; and controlling costs in administering the plan and managing the investments.

Fair Value of Plan Assets

Accounting Standard Codification 820-10-05, Fair Value Measurement, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

FASB ASC820-10-05 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodology used for level 2 assets measured at fair value. There have been no changes in methodology used at December 31, 2011 and 2010.

U.S. Government Securities: U.S. government securities, included in the fair value table at Note 8, are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. U.S. governmental securities are categorized in level 1 or level 2 depending on the inputs used and market levels for specific securities.

Money Market Accounts: The fair value of money market accounts is normally valued using amortized cost to the extent that periodic market-to-market calculations indicates the use of amortized cost approximating market value. Money market accounts are categorized as level 2.

(Amounts in thousands)

5. Benefit Plans (continued)

The following tables sets forth by level, within the fair value hierarchy the Plan's assets carried at fair value as of December 31, 2011 and 2010:

December 31, 2011	Level 1	Level 2	Level 3	Total
Domestic Equities – securities	$ 2,508	$ –	$ –	$ 2,508
Domestic Equities – mutual funds	34,171	–	–	34,171
International Equities –securities	106	–	–	106
International Equities – mutual funds	16,906	–	–	16,906
Fixed Income securities – mutual funds	33,899	–	–	33,899
Money Market	–	1,009	–	1,009
	$ 87,590	$ 1,009	$ –	$ 88,599

December 31, 2010	Level 1	Level 2	Level 3	Total
Domestic Equities – securities	$ 2,906	$ –	$ –	$ 2,906
Domestic Equities – mutual funds	46,690	–	–	46,690
International Equities –securities	107	–	–	107
International Equities – mutual funds	27,212	–	–	27,212
Fixed Income securities – mutual funds	12,848	–	–	12,848
Money Market	–	1,082	–	1,082
	$89,763	$ 1,082	$ –	$ 90,845

Contributions

Plan contributions made for 2011 and 2010 were approximately $3,413 and $1,683, respectively. In March 2012, the Hospital made contributions for the 2012 plan year totaling $8,500.

(Amounts in thousands)

5. Benefit Plans (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	Pension Benefit Payments
2012	$ 4,552
2013	4,962
2014	5,370
2015	5,781
2016	6,288
Thereafter	38,748
Total	$ 65,701

6. Lease Obligations

The Hospital leases certain office space and equipment under non-cancelable operating leases. At December 31, 2011, the minimum future rental payments under these leases are as follows:

2012	$ 495
2013	229
Thereafter	–
	$ 724

Rental expense for the years ended December 31, 2011 and 2010, was approximately $1,274 and $1,585 respectively.

(Amounts in thousands)

7. Long-Term Debt

Long-term debt consists of the following at December 31:

	2011	2010
Tax-exempt bonds issued on behalf of the Hospital by the Hospital Authority of Elkhart County:		
Hospital Revenue Bonds, Series 1998, bearing interest at fixed rates varying between 4.68 % to 5.25% due annually on August 15th of each year through 2028	$ 38,945	$ 40,240
Hospital Revenue Bonds, Series 2008, bearing interest at variable rates of 0.12% and 0.38% at December 31, 2011 and 2010, respectively, due annually on May 1st of each year through 2033	45,525	46,315
	84,470	86,555
Less unamortized discount	487	516
	83,983	86,039
Less current portion	2,195	2,085
	$ 81,788	$ 83,954

The Authority issued $49,330 of Series 1998 Hospital Revenue Bonds (Series 1998 Bonds). The Hospital borrowed the proceeds of the sale of the Series 1998 Bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture date November 15, 1998, between the Authority and Bank One, N.A., as trustee. A portion of the proceeds of the Series 1998 Bonds were issued to retire interest payments and principal payments of certain previously outstanding Series 1992 Bonds. The remaining are unsecured general obligations of the Hospital. The Series 1998 Bonds mature in August 2028.

The Authority issued $47,800 of Series 2008 Hospital Revenue Bonds (Series 2008 Bonds). The Hospital borrowed the proceeds of the sale of the Series 2008 bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture dated December 1, 2008. The proceeds of the Series 2008 Bonds were issued to retire interest and principal payments of previously outstanding bonds. The Series 2008 Bonds require the Hospital to hold a letter of credit with JP Morgan Chase Bank, N.A. in the amount of $46,243. The letter of credit expires on January 15, 2014. The letter of credit decreases by the principal payments made by the Hospital on the Series 2008 Bonds. The Series 2008 Bonds mature in May 2033.

The loan agreements require maintenance of a certain debt service coverage ratio, limit additional borrowings, and require compliance with various other restrictive covenants. The Hospital was in compliance with all covenants.

(Amounts in thousands)

7. Long-Term Debt (continued)

Interest paid during 2011 and 2010 was $2,195 and $2,283, respectively.

Interest capitalized during the years ended December 31, 2011 and 2010 was approximately $121 and $117, respectively.

Maturities of long-term debt for each of the next five years are as follows:

2012	$ 2,195
2013	2,450
2014	2,460
2015	2,595
2016	2,735

8. Fair Value of Financial Instruments

The fair value of the Hospital's long-term debt is approximately $84,501 and $85,067 at December 31, 2011 and 2010, respectively.

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

As noted in Note 5, the Hospital adopted ASC 820-10-50-2, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(Amounts in thousands)

8. Fair Value of Financial Instruments (continued)

The following tables present the financial instruments carried as of December 31, 2011 and 2010 as reflected in short-term investments and assets limited as to use on the balance sheet, by the valuation hierarchy for those instruments carried at fair value. Investments in the deferred compensation plan are included in other long-term assets.

December 31, 2011

	Level 1	Level 2	Level 3	Total
Domestic Equities- securities	$ 11,572	$ –	$ –	$ 11,572
Domestic Equities- mutual funds	88,909	–	–	88,909
International Equities- securities	1,120	–	–	1,120
International Equities- mutual funds	42,949	–	–	42,949
Fixed income securities- mutual funds	40,492	–	–	40,492
Fixed income securities- corporate bonds	632	–	–	632
Fixed income securities- US Treasuries	–	2,102	–	2,102
Fixed income securities- mortgage backed and other government	866	–	–	866
Money Market	–	6,195	–	6,195
	$186,540	$ 8,297	$ –	$ 194,837

December 31, 2010

	Level 1	Level 2	Level 3	Total
Domestic Equities- securities	$ 10,383	$ –	$ –	$ 10,383
Domestic Equities- mutual funds	99,143	–	–	99,143
International Equities- securities	1,020	–	–	1,020
International Equities- mutual funds	48,926	–	–	48,926
Fixed income securities- mutual funds	25,753	–	–	25,753
Fixed income securities- corporate bonds	346	–	–	346
Fixed income securities- US Treasuries	–	4,589	–	4,589
Fixed income securities- mortgage backed and other government	1,040	–	–	1,040
Money Market	–	1,108	–	1,108
	$186,611	$ 5,697	$ –	$ 192,308

(Amounts in thousands)

8. Fair Value of Financial Instruments (continued)

The composition of assets limited as to use and short-term and long-term investments is as follows at December 31:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 1,501	$ 1,501	$ 1,108	$ 1,108
Mutual funds	163,227	165,048	156,716	146,010
Marketable equity securities	12,693	11,166	12,394	10,151
Bonds	17,416	17,317	22,090	22,152
	$ 194,837	$ 195,032	$ 192,308	$ 179,421

Assets limited as to use, which are carried at fair value based on quoted market prices, consist of the following at December 31:

	2011	2010
Temporarily restricted	$ 4,264	$ 4,617
Permanently restricted	400	400
Unrestricted board-designated	154,630	156,074
	$ 159,294	$ 161,091

The unrestricted board-designated assets represent funds designated by the Board for future replacement and acquisition of property and equipment and the payment of principal on long-term debt.

Investment returns for assets limited as to use, cash and cash equivalents, and short-term investments comprise the following for the years ended December 31:

	2011	2010
Interest and dividend income	$ 8,379	$ 6,835
Interest expense	(265)	(243)
Net realized gains/(losses)	1,544	(48)
Net change in unrealized gains/(losses)	(11,136)	15,043
	$ (1,478)	$ 21,587

(Amounts in thousands)

8. Fair Value of Financial Instruments (continued)

Investment returns are included in the statements of operations and changes in net assets for the years ended December 31 as follows:

	2011	2010
Investment income and expense, and realized investment gains/(losses) included in non-operating income/expense, net	$ 9,886	$ 5,977
Other changes in unrestricted net assets – net change in unrealized gains/(losses), net	(11,136)	15,043
Temporarily restricted net assets investment income, net of trust fees, realized investment gains/(losses), and change in unrealized gains/(losses), net	(353)	497
Investment income released from restriction	125	70
	$ (1,478)	$ 21,587

The Hospital's investments are exposed to various kinds and levels of risk. Equity mutual funds expose the Hospital to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is that risk associated with a company's operating performance. Fixed income securities expose the Hospital to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Liquidity risk tends to be higher for equities related to small capitalization companies. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value, resulting in additional gains and losses in the near term.

9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. The following table presents expenses related to this and general and administrative functions for the years ended December 31. Fundraising expenses were not significant in either 2011 or 2010.

	2011	2010
Health care services	$ 220,797	$ 218,149
General and administrative	23,776	24,199
	$ 244,573	$ 242,348

10. Investments in Nonconsolidated Affiliates

The Hospital owned a 33% interest in Partners National Health Plans of Indiana, Inc., a health maintenance organization (HMO), at December 31, 2010. On January 23, 2003, the HMO announced a phase-out plan. In March 2007, the Hospital received a $700 return of investment. The phase-out was finalized during 2010. The dissolution of the HMO did not have a material adverse effect on the operations or financial condition of the Hospital.

The Hospital owns a 40% interest in Northern Indiana Ambulatory Surgery Center, LLC, d/b/a RiverPointe Surgery Center (the Surgery Center). The Surgery Center was formed during 1996 by the Hospital and individual physicians to own and operate an ambulatory surgery center in space leased from the Hospital.

The Hospital owns 50% of RiverPointe Cardiovascular Lab, LLC (the Cardiovascular Lab). The Cardiovascular Lab is owned by the Hospital and the Elkhart Clinic to operate a cardiovascular laboratory in space leased from the Hospital.

The Hospital owns 25% of Community Occupational Medicine, LLC, an occupational healthcare facility located in Elkhart, Indiana.

The Hospital owns 42% of Wakarusa Medical Clinic, LLC, which owns the Wakarusa Medical Clinic facility and leases it to the Hospital.

The Hospital owns 50% of WaNee Walk In Clinic, LLC, a physician practice facility located in Wakarusa, Indiana.

The Hospital owns 50% of Michiana Linen Service, LLC, a laundry facility located in Elkhart, Indiana. The Hospital provides contract services to the LLC, and purchases laundry services in return.

The Hospital is a guarantor for a portion the debt of an unconsolidated joint venture, Community Occupational Medicine, LLC, in which the Hospital records an equity interest. The portion of the debt guaranteed by the Hospital is estimated at $411 and $611 at December 31, 2011 and 2010, respectively. No amounts have been paid or accrued pursuant to this guarantee as of December 31, 2011. Community Occupational Medicine, LLC subsequently paid approximately $200 under the obligation as of, the date the financial statements were issued. The Hospital has set aside corresponding funds, which are recorded as short-term investments on the balance sheets.

During 2011 the Hospital entered into a 50/50 partnership agreement with American Care and Cornerstone Medical Services (CMS) for home health, durable medical equipment and home infusion therapy services. The partnerships became effective on July 1, 2011. The Hospital contributed $918 in cash, $84 in equipment at net book value and $60 in inventory to fund the partnership with American Care. The Hospital contributed $250 in cash, $596 in inventory and $236 in equipment while receiving $414 in cash to fund the partnership in CMS.

(Amounts in thousands)

10. Investments in Nonconsolidated Affiliates (continued)

Aggregate financial information (unaudited) relating to these investments is as follows:

	2011	2010
Assets	$ 16,344	$ 8,382
Liabilities	6,908	4,019
Net Income	518	1,887

11. Commitments and Contingencies

At December 31, 2011, the Hospital is contractually obligated for approximately $764, which primarily relates to construction projects as approved by the Hospital's Board of Trustees. Other significant contractual agreements are as follows.

Laboratory Services: The Hospital entered into a pathology and clinical laboratory service agreement (agreement) effective July 2007 which was amended in July 2010 to extend the contract through June 2014. The base compensation, which is adjusted annually, became $10,335 in July 2011. The Hospital paid $10,135 and $10,412 for pathology and clinical laboratory services under the agreement as of December 31, 2011 and 2010, respectively.

Self-Funded Health Insurance: The Hospital provides a self-funded health insurance plan to its employees. The Hospital has stop-loss insurance to reduce its exposure under this plan. For 2010, the plan included a $350 specific stop-loss insurance per individual per year with no aggregate limit. For 2011, the plan included a $300 specific stop-loss insurance per individual per year with no aggregate limit. The Hospital accrues for the estimated uninsured portion of pending claims, both known and incurred but not reported. These accruals are based on management's evaluation of the nature and severity of claims and the Hospital's historical claims experience. The liability accrued at December 31, 2011 and 2010 was $2,123 and $2,374, respectively, and is included in accounts payable and accrued expenses. The expense, which is included in employee benefits in operating expenses, was $14,572 and $12,687 for 2011 and 2010, respectively.

IT Services: The Hospital entered into an Information Service agreement (ISA) with CareTech Solutions, Inc. effective February 2008 to provide information technology services through January 2012. During 2010, the Hospital amended the agreement with CareTech Solutions to include disaster recovery and remote hosting services. Base fees paid totaled $3,765 and $3,820 for the years ended December 31, 2011 and 2010, respectively.

11. Commitments and Contingencies (continued)

Hospitalist Services: Effective January 2009, the Hospital entered into a Hospitalist Services Coverage agreement, (Hospitalist Agreement) with a third party provider. The Hospitalist Agreement guarantees $328 of annual cash receipts per full time equivalent (FTE) physician. The Hospitalist Agreement stipulates a mutual intent of 8 FTE physicians. Payments during 2011 and 2010 under the Hospitalist Agreement totaled $1,513 and $1,115, respectively.

Self-Funded Medical Malpractice: Professional liability claims that fall within the Hospital's range of self-insurance have been asserted by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2011 that may result in the assertion of additional claims, as well as claims, from unknown incidents that may be asserted. The Hospital provides an estimate of the ultimate costs, if any, relating to the settlement of such claims and remains liable for losses, if any, in excess of the amounts recorded; however, in management's opinion, such losses, if any, would not have a material adverse effect on the financial position or results of operations of the Hospital. The liability accrued at December 31, 2011 and 2010 was $2,165 and $397, respectively, and is included in accounts payable and accrued expenses. The Hospital recorded $792 as an insurance recovery receivable at December 31, 2011, and is included in other current assets. The expense, which is included in operating expenses, associated with medical malpractice was $1,095 and $218 for 2011 and 2010, respectively.

Anesthesia Services: The Hospital contracts anesthesia services with a third party provider. The Hospital guarantees approximately $7,536 of annual cash receipts to the third party provider. On January 1st of each year, the guaranteed amount shall be increased by a prescribed percentage. Payments made by the Hospital for amounts guaranteed to the third party totaled $4,226 and $3,926 during 2011 and 2010, respectively.

Center for Wound Care: The Hospital entered into an agreement with the Center for Wound Healing, Inc. to facilitate the construction, operation, and maintenance of a wound care facility under the auspices of the Hospital. The initial term is for 5 years commencing after the opening of the Center for Wound Care (CWC) facility which is expected to go-live in 2012.

Cardiology Services: On May 1, 2011, the Hospital entered into various agreements with the Elkhart Clinic to operate a Hospital-owned cardiology practice on site at the Elkhart Clinic. Rent, physician, and other professional services are purchased from the Elkhart Clinic which totaled $2,909 in 2011. On November 27, 2011, the Hospital entered into an agreement with Midwest Medical Group to purchase physician services for a second Hospital-owned cardiology practice which totaled $207 in 2011.

Revenue Cycle Management: In July 2011, the Hospital entered into an agreement with Accretive Health, Inc. to manage the revenue cycle operations of the Hospital. The agreement is non-cancellable with a four year term. The fees for services provided under the agreement are not limited and are contingent based on anticipated improvements in revenue cycle operations.

12. Professional Liability Insurance

The Hospital is a defendant in certain litigation arising in the ordinary course of business. The Hospital began self-funding its professional coverage for hospital services on February 28, 2010. Physician practice malpractice coverage remains fully-insured. The Indiana Medical Malpractice Act has provided recovery up to $1,250 per occurrence, with the first $250 covered by the Hospital. Under the self-insured program, the Hospital pays malpractice claims, settlements, and related legal expenses from its operating funds. The gross amount of malpractice liability claims, including a component for incurred but not reported claims, was approximately $2,165 and $397 at December 31, 2011 and 2010, respectively. At December 31, 2011, the Hospital recorded $792 insurance recovery receivable in other current assets.

13. Income Taxes

U.S. GAAP requires that a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Due to its tax-exempt status, the Hospital is not subject to U.S. federal income tax or state income tax. The Hospital is, however, subject to income taxes on income generated from activities that are un-related to its exempt purpose. The Hospital’s Form 990 has not been subject to examination by the Internal Revenue Service or the State of Indiana for the last three years. The Hospital does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Hospital recognizes interest and/or penalties related to income tax matters in income tax expense. The Hospital did not have any amounts recorded for interest and penalties at December 31, 2011 and 2010.

14. Restricted Net Assets

Permanently restricted and temporarily restricted net assets are available for program services in the amounts of $4,664 and $5,017 at December 31 for 2011 and 2010, respectively.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. In accordance with the restriction, a majority of the investment income and investment gains or losses from permanently restricted net assets are to be reinvested with the principal and are therefore temporarily restricted. A specified portion of income earned by the temporarily restricted net assets is released from restriction and used for operations each year and, therefore, is included in the statements of operations and changes in net assets as other revenue.

14. Restricted Net Assets (continued)

In August 2008, the FASB issues FASB ASC 958-205, Endowments of Not-for Profit Organizations: Net Asset Classification of classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2007, the State of Indiana adopted UPMIFA. The following disclosures are made as required by FASB ASC 958-205.

The Hospital has one endowment established for patient care purposes. The Hospital has established investment and spending policies related to the preservation and appreciation of this endowment. Should the underlying assets fall below this targeted amount the Hospital pursues actions consistent with established policies to return the endowment to the targeted amount. Based upon these policies, endowment amounts are temporarily restricted until Board authorized release of funds for patient care purposes are approved.

Changes in the endowment funds, consisting principally of the funds included as temporarily restricted net assets of the Hospital, for the fiscal years ended December 31 2011 and 2010, are detailed within the statements of operations and changes in net assets, respectively. At December 31, 2011 and 2010, other than the endowment described above, no other Board-designated assets limited as to use are being accounted for as Board-designated endowments as they do not meet applicable criteria.

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Hospital. Temporarily restricted gifts and bequests are recorded as an addition to temporarily restricted net assets in the period received. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported in the statements of operations and changes in net assets as additions to unrestricted net assets. Resources restricted by donors for specific operating purposes are reported in unrestricted revenue, gains, and other support to the extent expended within the period.

15. Related-Party Transactions

Elkhart General Hospital Foundation (the Foundation) was founded in 1966 to obtain funds through charitable contributions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the Hospital, the timing of such distributions, and the purposes for which such funds are to be used. In addition, the Foundation directs the investment activities of the Jonathan Primley Fund (restricted assets), which released $125 and $70 in 2011 and 2010, respectively.

The Hospital provides certain services in the ordinary course of business to the Riverpointe Surgery Center. Revenue recognized by the Hospital in connection with this arrangement for the years ended December 31, 2011 and 2010, was $87 and $85, respectively. In addition, the Hospital received rental income from the physicians and the Surgery Center occupying the RiverPointe Medical Office Building of $821 and $1,459 for the years ended December 31, 2011 and 2010, respectively.

The Hospital provides employees to Michiana Linen, LLC under a leased employee agreement. The Hospital also provides certain services in the ordinary course of business to Michiana Linen, LLC. Revenue recognized by the Hospital in connection with this arrangement for the years ended December 31, 2011 and 2010, respectively is $1,600 and $1,870. Related party receivables of $118 and $1,137 related to these services are outstanding at December 31, 2011 and 2010, respectively.

In May 2010, the Hospital entered into an agreement with Michiana Linen Service, LLC to purchase laundry services which totaled $1,158 and $810 for 2011 and 2010, respectively.

16. Electronic Health Records

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (“HITECH”). These provisions were designed to increase the use of electronic health records (“EHR”) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

16. Electronic Health Records (continued)

During 2011, the Hospital recognized approximately $1,083 of revenue for HITECH incentives from Medicaid related to having demonstrated meaningful use of certified EHR technology or having completed attestations to the adoption or implementation of certified EHR technology. Such revenue is included in other operating revenue on the statement of operations and changes in net assets.

17. Subsequent Events

On March 29, 2012 the Board of Directors voted to discontinue the Hospital's use of McKesson for providing services related to the EHR initiative. McKesson is a vendor contracted for many computer hardware and software projects and EGH will maintain a business relationship with McKesson going forward; however not for the EHR project. The Hospital will utilize the services of Cerner for the EHR project. Cerner will provide similar services that were contracted through McKesson. Based on the decision to change vendors, there was $1,670 of fixed assets in construction in progress and unpaid invoices related to the project that became impaired.

The Hospital evaluated events and transactions occurring subsequent to December 31, 2011 through April 30, 2012, the date of issuance of the financial statements. During this period, there were no subsequent events other than those previously mentioned requiring recognition or disclosure in the consolidated financial statements, other than those previously disclosed.